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UNCLAS SECTION 01 OF 02 JAKARTA 001600

SIPDIS

DEPARTMENT FOR EAP/MTS, EAP/EP, E AND EEB/IFD/OMA  
TREASURY FOR T.RAND  
USTR FOR EHLERS  
COMMERCE FOR 4430 NADJMI  
MCC FOR ISMAIL  
SINGAPORE FOR SETH BLEIWEIS  
STATE PASS TO EXIM, OPIC AND FEDERAL RESERVE SAN FRANCISCO FOR  
CURRAN

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [ID](#)

SUBJECT: RATINGS UPGRADES AND UPWARD REVISIONS TO GROWTH FORECASTS

REFLECT INDONESIA'S RESILIENCE AND INCREASED STABILITY

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¶1. (U) Summary: Indonesia's resilience to the global economic downturn and prospects for improved economic performance following President Yudhoyono's peaceful re-election supported a recent upgrade of Indonesia's sovereign debt ratings and upward revisions of 2009-2010 economic growth forecasts. Moody's Investors Service upgraded Indonesia's foreign- and local-currency sovereign debt ratings to Ba2 from Ba3, with a stable outlook, on September 16. Indonesia's sovereign rating is now two notches below investment grade, according to both Moody's and Fitch, with Standard and Poor's rating one notch lower. Improving conditions also prompted the World Bank and the Asian Development Bank to raise economic growth forecasts for Indonesia to 4.3 percent in 2009 (up from 3.5 and 3.6 percent respectively) and to 5.4 percent in 2010 (up from 5.0 percent). Indonesia was also recognized by the World Bank Group as Asia's most active reformer of business regulations in 2008/09 in the Doing Business 2010 report, released September 9. End summary.

Ratings Upgrade Cites Improving Macroeconomic Management, Credit Profile and Success in Containing Systemic Risk From Terrorism  
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¶2. (U) Moody's rating upgrade highlighted Indonesia's improving macroeconomic management and credit profile, supported by ongoing policy prudence, structural reforms and appropriate debt management. Indonesia's relatively low budget deficits and strong economic growth have reduced Indonesia's general government debt and private external debt to lower than its peer medians, according to Moody's. Moody's noted the re-election of pro-reform incumbent President Yudhoyono will broadly ensure policy continuity and possibly lead to a deepening of policy and structural reforms. Moody's also recognized that Indonesia's increasingly effective political institutions and security apparatus had contained systemic risk from terrorist attacks.

¶3. (U) Several market analysts have predicted Indonesia's sovereign debt could gain investment grade in the next two to five years, though recognizing the significant progress needed to achieve that goal. In its upgrade, Moody's noted that if Indonesia's sovereign creditworthiness is to further improve, it will need a strong foreign currency reserve position and factors such as a more

developed domestic capital market and a larger institutional investor base will assume greater significance.

World Bank and ADB Raise 2009 and 2010 Economic Growth Forecasts

14. (U) The World Bank and the Asian Development Bank (ADB) also raised their economic growth forecasts for Indonesia to 4.3 percent in 2009 (up from earlier forecasts of 3.5 and 3.6 percent, respectively) and to 5.4 percent in 2010 (up from earlier forecasts of 5.0 percent) in their most recent outlooks. These forecasts expect domestic demand to remain the major driver of growth in 2009, supported by a recovery in the external sector, and growing government consumption as the fiscal stimulus is disbursed. 2010 growth is expected to accelerate on stronger investment, more readily available credit and improved confidence among investors as global growth and commodity prices recover. The ADB cautions that risks to its outlook include higher than expected oil prices, which would drive inflation and hurt consumption, and dry weather that could damage harvests. The World Bank expects Indonesia to approach its potential of around 6.0 to 6.5 percent growth in 2011, as the world economy recovers.

Indonesia Recognized as Asia's Most Active Reformer in Doing Business 2010

15. (U) Indonesia also garnered positive attention from the IFC and World Bank in the Doing Business 2010 report. Indonesia moved up in the global ease of doing business rankings from 129 to 122 and was recognized as Asia's most active reformer. Indonesia continues to lag regional peers such as Singapore (ranked first globally); Thailand (ranked 12), Malaysia (ranked 23) and Vietnam (ranked 93). According to the Doing Business 2010 report, Indonesian business regulation reforms in 2008/2009 included cutting the time required

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to start a business by 16 days (from 76 to 60 days) in 2008/2009 and the time to transfer property by 17 days (from 39 to 22 days) and strengthening of disclosure requirements for related-party transactions, improving the protection of investors.